

SETTLEMENT AGREEMENT

The Wyoming Department of Environmental Quality, Air Quality Division (DEQ/AQD), Herschler Building, 122 West 25th Street, Cheyenne, Wyoming 82002, and Chesapeake Operating, LLC (Chesapeake Operating), 6100 North Western Avenue, Oklahoma City, Oklahoma, 73118, enter into this Settlement Agreement (Agreement) to fully and finally resolve without litigation the alleged violations cited in Notice of Violation Docket Number 5500-14 (Notice of Violation). The Notice of Violation alleged that Chesapeake Operating violated the Wyoming Air Quality Standards and Regulations (Air Quality Rules) and the Oil and Gas Production Facilities Chapter 6, Section 2 Permitting Guidance (Guidance) by failing to obtain a permit for the Sims 7-25 facility located in Converse County (Facility).

Wyo. Stat. Ann. § 35-11-901(a)(ii) (2013) authorizes stipulated settlement, including payment of a penalty, implementation of compliance schedules, or other settlement conditions in lieu of litigation. To that end, Chesapeake Operating and the DEQ/AQD hereby agree as follows:

1. Chesapeake Operating is an Oklahoma limited liability company authorized to do business in Wyoming.
2. On June 26, 2014, Chesapeake Operating, Inc. changed its name to Chesapeake Operating, LLC.
3. Chesapeake Operating is the owner and operator of the Facility.
4. The DEQ/AQD is the executive branch agency of Wyoming government responsible for enforcing the Air Quality Rules.
5. Wyo. Stat. Ann. § 35-11-201 provides, “[n]o person shall cause, threaten or allow the discharge or emission of any air contaminant in any form so as to cause pollution which violates rules, regulations and standards adopted by the [environmental quality] council.”
6. Chapter 6, Section 2 of the WAQSR prescribes the applicability and procedures for issuing permits to sources under Wyoming’s construction and modification permitting program.
7. Chapter 6, Section 2(a)(i) of the WAQSR states “Any person who plans to construct any new facility or source, modify any existing facility or source, or to engage in the use of which may cause the issuance of or an increase in the issuance of air contaminants into the air of this state shall obtain a construction permit from the State of

Wyoming, Department of Environmental Quality before any actual work is begun on the facility.”

8. The Guidance provides that oil and gas production companies may either obtain a permit prior to the construction of a new air emission source, or file a permit application within 90 days after the first date of production.

9. Chesapeake Operating acquired the Facility from American Oil and Gas, Inc. and North Finn, LLC on March 31, 2010.

10. On April 8, 2014, DEQ/AQD received a permit application from Chesapeake Operating for the Facility. The application stated that the Facility began production on January 1, 2009.

11. On October 28, 2014, DEQ/AQD issued the Notice of Violation to Chesapeake Operating. The Notice of Violation alleged that Chesapeake Operating was in violation of the Air Quality Rules and the Guidance for failing to apply for a permit for the Facility until more than five years after the first date of production.

12. Without admitting liability, and in lieu of litigation pursuant to Wyo. Stat. Ann. § 35-11-901(a)(ii), Chesapeake Operating agrees to pay to the DEQ/AQD the amount of five thousand dollars (\$5,000) as a stipulated penalty to resolve the violations alleged in the aforementioned Notice of Violation. Chesapeake Operating agrees to make full payment by check made payable to the Wyoming DEQ/AQD, within thirty (30) days after Chesapeake Operating has been notified by DEQ/AQD that the final signature has been affixed to this Agreement. Chesapeake Operating agrees to mail the payment to Ann Shed, DEQ/AQD, Herschler Building, 122 West 25th Street, Cheyenne, Wyoming 82002.

13. Chesapeake Operating, by entering into this Agreement, does not concede or admit any liability, fault, or statutory noncompliance. Except as specifically provided for herein, nothing in this Agreement shall prejudice, waive, or impair any right, remedy, or defense that Chesapeake Operating may have against any entity.

14. Full compliance with this signed Agreement shall constitute full satisfaction for all claims by the DEQ/AQD against Chesapeake Operating arising from the allegations contained within the Notice of Violation and this Agreement. In reliance on this Agreement, the DEQ/AQD will refrain from taking further enforcement action against Chesapeake Operating for these particular alleged violations. By this Agreement, the Parties intend to resolve with prejudice all allegations that are contained within the Notice of Violation and this Agreement.

15. In the event that Chesapeake Operating fails to fulfill its obligations under this Agreement, Chesapeake Operating waives any statute of limitation claims that may

apply in an enforcement action by the DEQ/AQD involving the specific matters described in the Notice of Violation or otherwise set forth in this Agreement.

16. This Agreement shall be admissible by either Chesapeake Operating or the DEQ/AQD without objection by the other party in any action between DEQ/AQD and Chesapeake Operating relating to the violations alleged herein.

17. Each party assumes the risk of any liability arising from its own conduct. Neither party agrees to insure, defend, or indemnify the other. Neither DEQ/AQD nor Chesapeake Operating shall have any claim against the other for attorneys' fees, or any other costs related to the preparation and resolution of this Agreement.

18. Any changes, modifications, revisions, or amendments to this Agreement are invalid unless mutually agreed upon by both parties, incorporated by written instrument, executed, and signed by all parties to this Agreement.

19. The laws of the State of Wyoming shall govern the construction, interpretation, and enforcement of this Agreement. The Courts of the State of Wyoming shall have jurisdiction over this Agreement and the parties, and the venue shall be the First Judicial District, Laramie County, Wyoming.

20. This Agreement, consisting of four (4) pages represents the entire and integrated agreement between the parties and supersedes all prior negotiations, representations, and agreements, whether written or oral.

21. The State of Wyoming and the DEQ/AQD do not waive sovereign immunity by entering into this Agreement and specifically retain immunity and all defenses available to them as sovereigns pursuant to Wyo. Stat. Ann. § 1-39-104(a) and all other state law.

22. The parties do not intend to create in any other individual or entity the status of third party beneficiary, and this Agreement shall not be construed to create such status. The rights, duties, and obligations contained in this Agreement shall operate only between the parties to this Agreement, and shall inure solely to the benefit of the parties to this Agreement. The parties to this Agreement intend and expressly agree that only parties signatory to this Agreement shall have any legal or equitable right to seek to enforce this Agreement, to seek any remedy arising out of a party's performance or failure to perform any term or condition of this Agreement, or to bring an action for the breach of this Agreement.


23. In the event that Chesapeake Operating assigns any or all of its proprietary interest in the Facility, DEQ/AQD reserves the right to enforce this Agreement against any and all subsequent owners and operators.

24. Each party represents that they are authorized to enter into this Agreement, agrees to comply with and to be bound by the terms of this Agreement, and further agrees that they will not contest the basis or validity of this Agreement. This Agreement shall become binding upon the parties once executed. Chesapeake Operating, LLC hereby represents and warrants that it is authorized to bind Chesapeake Operating, Inc. to this Agreement and, in the alternative, that it assumes all liability created by this Agreement and the related Notice of Violation.

IN WITNESS THEREOF, the parties, by their duly authorized representatives, have executed this Agreement on the days and dates set out below, and certify that they have read, understood, and agreed to the terms and conditions of this Agreement:

CHESAPEAKE OPERATING, LLC:

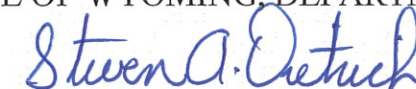
By:


Jim Govenlock
Vice President,
Rockies Business Unit

03/09/15
Date

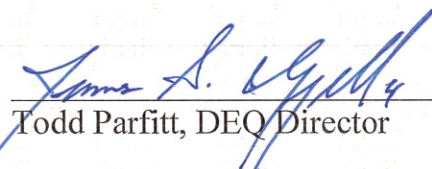
STATE OF WYOMING, DEPARTMENT OF ENVIRONMENTAL QUALITY:

By:


Steven A. Dietrich, AQD Administrator

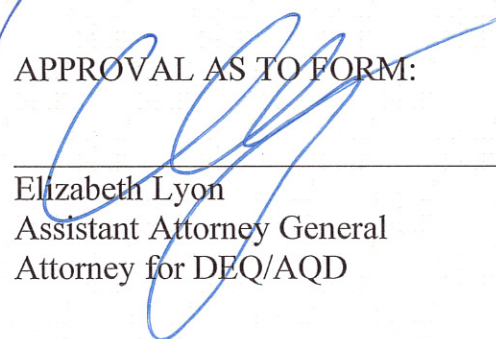
3-16-15
Date

By:


Todd Parfitt, DEQ Director

3/18/15
Date

APPROVAL AS TO FORM:


Elizabeth Lyon
Assistant Attorney General
Attorney for DEQ/AQD

3/19/15
Date